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April 29, 2005

Mr. Dennis Joyce, Editorial Page Editor e-mail: djoyce@azstarnet.com
Arizona Daily Star
P.O. Box 26807
Tucson, AZ 85726-6807

Re: Editorial response to Richard Ducote's article on the Environmental Portfolio Standard ("EPS"); Docket No. Re-00000C-05-0030

Dear Mr. Joyce:

In 2001 the Arizona Corporation Commission passed the Environmental Portfolio Standard ("EPS"). We were one of the first states in the U.S. to require utilities to generate a percentage of the electricity that they sell from renewable technologies such as solar, wind, or biomass. Last year, the Commission approved the continuation of the annual increases that will culminate in a renewable portfolio requirement of 1.1% by 2007.

The ACC is currently considering a proposal by Commission Staff to raise that requirement to 5% by 2015 and to 15% by 2025.

In a recent editorial, the *Arizona Daily Star* criticized expanding the EPS requirement claiming that it would put an "undue strain on ratepayers" and jeopardize reliability. Neither of these criticisms holds water.

While it is true that energy from renewable sources currently costs more than energy generated from coal and natural gas, that difference is getting smaller. The price of natural gas has skyrocketed in the past few years and this trend is likely to continue. Coal prices have not experienced the volatility of natural gas, but coal plants are facing increasingly stringent (and expensive) regulations on emissions. Both of these factors are driving up the price of conventional power. On the other hand, the cost of solar generation has steadily declined and wind is now competitive with the price of peak power from a gas fired plant.

As for reliability, the EPS does not envision eliminating all the coal, natural gas, and nuclear power plants and replacing them with wind farms and solar facilities so that the lights, and more importantly the air conditioners, shut down when the wind dies or the sun goes behind a cloud. A significant change to the EPS involves the restoration of Demand Side Management funds and emphasis on distributed generation. These programs focus on conservation and reducing peak load.

The purpose of Demand Side Management is to shift peak load to off-peak hours, to reduce peak demand, and to reduce energy consumption in a cost effective manner. One of the ways to do this is through the use of distributed renewable energy resources.

A distributed renewable energy resource is one that is located on a customer's premises and either replaces the need for the use of conventional power or produces renewable energy. An example would be solar panels on a customer's rooftop. In Arizona the peak demand for energy occurs in the summer – this is when conventional power is most expensive and the grid is at its most vulnerable. The more sources of renewable energy that are available near the locations where that energy will be consumed lessens peak demand for conventional power and relieves stress on the grid, promoting reliability.

As the costs of fossils fuels continue to rise, power generated by renewable means, such as wind, solar, biomass, geothermal, and landfill gas, continues to become more competitive. The benefits of cultivating these industries in Arizona are many – cleaner air, increased reliability, decreased dependence on fossil fuels, and economic development.

Sincerely,

William A. Mundell

William A. Mundell, Commissioner
Arizona Corporation Commission

Hard Copy by U.S. Mail

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Opinion by Richard Ducote: Too much green could cost jobs in the long run

Opinion by Richard Ducote

Just say "jobs" and you've got everyone's attention. Thus, promoters of more "clean, renewable energy" emphasize job creation, increased wages and help for rural areas in pushing such things as solar and wind power.

Just a quick glance at a new report by the Arizona Public Interest Research Group would make you think green energy grows only on trees.

Actually, it comes at a very high cost, and you and I will pay for it, every green watt of it.

Here is a red caution flag: Making basic energy more expensive could cost many jobs in the long run.

Currently, solar power can cost four or five times as much as conventional power from coal and gas generation.

It took some doing in 2001 for the Arizona Corporation Commission to adopt the current requirement for utilities to provide 1.1 percent of energy from "renewable" sources by 2007.

Despite spending millions of dollars and building some impressive infrastructure, Tucson Electric Power is struggling to meet that requirement.

Now, the staff of the ACC is floating the idea of raising the renewables requirement to 5 percent by 2015 and to 15 percent by 2025.

Even with the help of the world's most productive single-site solar-power generator, in Springerville, TEP fell short last year of its 2004 goal for generation of green power.

Boosting the current 1.1 percent requirement by a factor of nearly 5 in just 10 years could put an undue strain on ratepayers and the critical reliability we demand.

The staff proposal would raise the current cap on renewable surcharges on residential electric bills from 35 cents a month to $2. Normally, the vote-sensitive members of the commission would squeal loudly about a huge increase in customer charges. But this one is cloaked in green.

Assume for a moment that adding costly green fees to utility bills doesn't put Arizona industries at a competitive disadvantage. Just consider the factor of reliability, perhaps the most critical element of our vast electricity system.

A passing cloud or a pause in the wind will pull critical kilowatts out of the grid if large portions of our system become dependent on solar panels and windmills.

The greenest watt is one that is not consumed. Millions of dollars have been diverted from demand-management programs to fund today's limited renewable portfolio.

Restoring programs to manage demand and level peak loads would be wiser than promoting the expansion of costly technology that cannot keep up with a growing population.

Utility regulation should focus primarily on reliability and long-term value for customers and investors.

Coal power will remain the backbone of Tucson's power system for decades to come. Indeed, that is the likely

path for the nation as well. Nuclear power will also have a place in this greenhouse-sensitive world.

Wind, solar and other renewables simply cannot produce the reliable quantities of power required by a modern economy.

Some incentive for diversification of sources is fine, but we should be careful not to burden utilities with unrealistic and extravagant requirements.

There are better ways to make policies green than burying our current utility system in piles of money extracted from customers.

• *Contact Richard Ducote at 573-4178 or rducote@azstarnet.com.*